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SENSITIVE
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SUBJECT: GOR AIMS TO CUT U.S. MEAT IMPORTS IN
2009

REF: A) MOSCOW 2740, B) MOSCOW 2620, C) MOSCOW
2579, D) MOSCOW 2204

SENSITIVE BUT UNCLASSIFIED

11. (SBU) SUMMARY: On September 11, Russian Economic Development Minister Nabiullina sent a letter to U.S. Trade Representative Schwab requesting expert level consultations on the Meat Agreement signed between Russia and the United States in 2005 as part of Russia's bid to join the WTO (REF A). Russia's chief WTO negotiator, Maxim Medvedkov, informed AgMinCouns on September 12 that the GOR's position had not yet been finalized as to what specific components of the Meat Agreement the GOR would like to modify. He did state, however, that GOR plans to make amendments for poultry and pork that would take effect in 2009. In recent weeks, several government officials have stated they want to substantially lower the quota for U.S. poultry in 2009 (Refs B, C), and raise over-quota duties on poultry and pork, even though recent statistics show that inflation during the first 8 months of 2008 has already reached 9.8 percent. END SUMMARY.

REQUEST FOR CONSULTATIONS ON MEAT AGREEMENT

12. (SBU) In a letter on September 11 to U.S. Trade Representative Schwab, Economic Development Minister Nabiullina requested consultations to discuss issues of concern with the 2005 Meat Agreement (Ref A). Although the letter did not specify what issues the GOR would like to discuss, several government officials have stated to the press recently that they want to substantially lower the tariff rate quota (TRQ) for U.S. poultry in 2009 and raise over-quota duties on poultry and pork.

13. (U) Article 3 of the Meat Agreement states that the agreement shall be subject to review upon request of either Party and that either

Party may request consultations regarding the implementation of the agreement or its termination. The Agreements states that "such consultations shall be held within 30 days after receipt of a written request, or at such other time as the Parties agree."

RUSSIA FOCUSED ON POULTRY AND PORK

¶4. (SBU) Russia's chief WTO negotiator, Maxim Medvedkov, advised AgMinCouns on September 12 that GOR had yet to finalize its position for the upcoming consultations. According to Medvedkov, representatives from several Russian government bodies will hold internal meetings in the coming days to finalize their position. It is clear, however, that GOR does anticipate making amendments to the Meat Agreement that focus on poultry and pork in 2009. Medvedkov stated that the most sensitive issue was poultry and added that he did not foresee a need for any amendments on beef.

¶5. (SBU) Medvedkov observed that the U.S. and Russian poultry industries signed a "milestone" memorandum of understanding (MOU) in July that "made conclusions about U.S. poultry exports in 2009" (REF D). AgMinCouns stated that the USG was aware of the industry agreement, but added that it was a private matter that did not involve any agreements between our two governments.

¶6. (SBU) Observing that "We cannot wait until Christmas Eve to announce any 2009 amendments to the Meat Agreement," Medvedkov stated that the consultations should happen sooner rather than later, so that the Russian and U.S. industries would have time to make adjustments in production and shipping arrangements. Medvedkov also said that the GOR was flexible on the scheduling and venue for consultations, as well as on the composition of negotiating teams.

¶7. (SBU) In recent weeks, post has heard from several government and industry contacts that the GOR wants to lower the U.S. quota of poultry to 750,000 metric tons (mt) in 2009, down from 931,000 mt. (NOTE: That is the level stated in the industry MOU that Medvedkov cited.) In addition, it is widely believed that the GOR plans to raise over-quota duties on both poultry and pork from 40 percent to 90 percent, effectively pricing out U.S. supply of over-quota pork and poultry to the Russian market.

¶8. (SBU) Representatives from "SoyuzKontrakt" advised the Agriculture Section on September 10 that government contacts told them that the GOR wants to cut the U.S. poultry TRQ allocation down to 750,000 mt and that the Ministry of Agriculture was also pushing hard for a hefty hike in over-quota duties on poultry and possibly pork. (SoyuzKontrakt is the largest importer of U.S. poultry in Russia and holds 70 percent of the total poultry TRQ.) The well-connected SoyuzKontrakt representatives also stated that the GOR has yet to agree on the level of new tariff rates, but they were expecting that the over-quota duty rate would be high enough to make it unprofitable for importers to bring in over-quota poultry and pork.

COMMENT

19. (SBU) Medvedkov's comments on the likely GOR issues for consultations on the Meat Agreement are consistent with PM Putin's and First Deputy PM Shuvalov's August 25 statements about the need to reopen some commitments made during the WTO accession process, particularly in the area of agriculture (Refs B, C). Likewise, Agriculture Minister Gordeyev announced on August 27 that his ministry would seek broad cuts in poultry, pork and dairy imports, given that "agreements signed more than three years ago as part of the negotiations on WTO accession are unfortunately no longer in Russia's interests." In their public statements about the need to reduce meat imports, the GOR has not mentioned any concern about the potential inflationary pressures on food prices. Meat prices continue to trend upward and jumped 2.2 percent in August on a month-to-month basis, according to the Russian State Statistics Service. Inflation during the first 8 months of 2008 has already reached 9.8 percent, and the Ministry of Economic Development recently forecast that inflation would reach 12.5 percent by the end of the year.
BEYRLE